



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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John G. Morgan
Comptroller

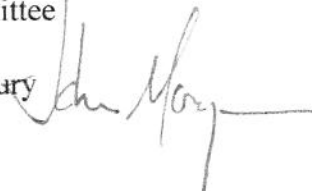
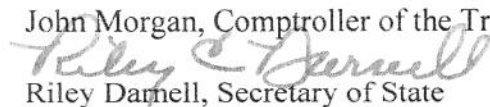
December 19, 2008


Memorandum


TO: Governor Phil Bredesen

Chairman Randy McNally
Senate Finance, Ways, & Means Committee

Chairman Craig Fitzhugh
House Finance, Ways, & Means Committee

FROM: John Morgan, Comptroller of the Treasury 
 Riley Darnell, Secretary of State

Dale Sims, State Treasurer 

M.D. Goetz, Jr., Commissioner
Department of Finance & Administration 

SUBJECT: Revenue Estimates for FY 2008-09 and FY 2009-10

The State Funding Board met on December 5 and December 12, 2008, to hear presentations on, and to engage in discussions about, the State's near-term economic outlook for the fiscal years 2008-09 and 2009-10.

The Board is charged, in Tennessee Code Annotated Section 9-4-5202(e), with the responsibility of developing consensus ranges of state revenue growth. In doing so, the Board evaluates and interprets economic data and revenue forecasts supplied by various economists as well as persons acquainted with the Tennessee revenue system. This is a revenue estimation process and not a budgeting process. The Board does not take into consideration the State's fiscal situation when developing its consensus ranges of revenue growth; however, the Board does strive to have the highest degree of confidence in the State's ability to achieve such growth. Fiscal considerations properly

belong with those who set the State's budget - the Administration that recommends appropriation levels based upon its assessment of revenue growth and the General Assembly that adopts a *de facto* revenue estimate through its final action on the appropriations bill.

During this meeting, the Board heard economic testimony from Dr. William Fox of The University of Tennessee; Dr. Albert DePrince of Middle Tennessee State University; Dr. Jeff Wallace and Dr. Dennis Wilson of the University of Memphis; Mr. Jim White, Mr. Dan Cooper, and Mr. Robert Currey of the Fiscal Review Committee; and Mr. Reid Linn of the State Department of Revenue. The state tax revenue estimates provided by each of the presenters are summarized in two attachments to this memorandum.

The consensus of the presenters is that there has been no growth and there will continue to be no growth in the economy for several months. All of the presenters acknowledged that the country is currently in a recession, which is expected to continue until the latter part of fiscal year 2008-09. This recession was not evident during last fiscal year's revenue forecasting process. With respect to their forecasts, several of the presenters cautioned that there was a higher risk of undercollecting the estimate versus overcollecting the estimate for the current fiscal year.

Much like the unemployment rate on the national level, the unemployment rate in Tennessee continues to rise. There continues to be negative employment growth in the sectors of durable goods and professional and business services. There has been positive growth in government employment and in the areas of health care and private K-12 education.

The presenters noted that factors such as illiquidity and extreme volatility in the market, unemployment, a real decline in personal income and the lack of consumer confidence have directly impacted Tennessee's current economic condition.

Tennessee is currently experiencing a slowdown in big ticket sales for light vehicles and homes, which negatively impacts sales tax and privilege tax collections. Until such time as sales in these areas recover, State tax revenues are not likely to recover. None of the presenters forecasted improvement in these areas of sales until the first quarter of fiscal year 2009-10. With regard to corporate taxes, when compared nationally, Tennessee ranks 7th worst among the states in collection of corporate taxes.

In terms of State revenue forecasts, all presenters believed the State would undercollect the original budget estimates for fiscal year 2008-09.

Based on the testimony received and the Board discussions, the Board developed the following summarized consensus estimates expressed in ranges of growth rates in State tax revenue collections:

	FY 2008-09		FY 2009-10	
	Low	High	Low	High
Total State Taxes	-7.25%	-6.00%	0.25%	2.00%
General Fund Only	-8.00%	-6.50%	0.25%	2.00%

The effects of the proposed federal stimulus package on State revenue collection are not factored into the estimates above. Until such time as more details are released and the stimulus package is enacted, it is not appropriate to account for the impact in revenue estimates.

The Board believes that while it is difficult to precisely predict revenue growth rate ranges when the economy is currently so volatile, these ranges are reasonable and appropriate for use in State budgeting and are based on statutory tax provisions enacted through the 2008 session of the General Assembly. As in past years, the Board intends to revisit these estimates prior to the General Assembly's final budget deliberations. Each of you will be advised of any revisions made by the Board at that time.

Additionally, the State Funding Board received presentations regarding the Tennessee Education Lottery (TEL). Legislation in 2003 created the Tennessee Education Lottery Corporation (TELC) (Tennessee Code Annotated Sections 4-51-101 et seq.) Tennessee Code Annotated Section 4-51-111(c) requires the Board to establish a projected revenue range for the "Net Lottery Proceeds" [defined in Section 4-51-102(14)] for the remainder of the current fiscal year and for the succeeding fiscal year. Ms. Rebecca Hargrove, the Chief Executive Officer and Mr. Andy Davis, Chief Financial and Technology Officer of the TELC presented their estimate of total and Net Lottery Proceeds for fiscal year 2008-09. The TELC estimates Net Lottery Proceeds for fiscal year 2008-09 to be 27% of net revenues. Due to the uncertainty of the current economic climate, TELC was unable to provide reliable estimates for fiscal year 2009-10. However, it was suggested that the estimates for fiscal year 2009-10 mirror estimates for fiscal year 2008-09 until such time as more reliable information is available. Additionally, TELC estimates the amount for unclaimed prizes to be approximately 2% of prize expense (excluding jackpot prizes), all of which is to be deposited into the "after school programs special account" at the end of each fiscal year.

Ms. Hargrove reviewed significant factors impacting TELC estimates. For fiscal year 2008-09, TELC anticipates sales for the Cash 3 and Cash 4 to slightly exceed sales in fiscal year 2007-08. Lotto 5 sales are trending lower compared with the prior year. The HotTrax Champions, a monitor-based online game, will be discontinued on December 31, 2008, due to declining sales. In addition, Powerball sales continue to be impacted by the size of the jackpots. As of October 31st of the current fiscal year, only one jackpot cycle has exceeded \$200 million compared with one cycle of over \$300 million during fiscal year 2007-08. In January 2009, two factors that impact Powerball sales will occur, the State of Florida will enter into the Powerball jackpot, and there will

be a matrix change. TELC also implemented a retailer recruitment and retention program in fiscal year 2008-09 that is expected to increase the number of lottery retailers by approximately 85 and increase sales by approximately \$20 million.

The Board additionally heard from Mr. Robert Currey, Chief Economist with the Fiscal Review Committee (FRC), who presented to the Board the FRC's lottery projections. Mr. Currey reviewed the fiscal year 2007-08 performance of the TELC and reported \$272,415,567 in Net Lottery Proceeds. In looking at fiscal year 2008-09, Mr. Currey forecasted moderate growth for the instant games, assuming a prize payout ratio of 65.5%. Mr. Currey noted that gross lottery sales from November 8, 2008, until December 1, 2008, worsened week over week for all games except Cash 4, Pick 5, and Lotto Plus. He attributed the decline in sales to factors that are not controlled by lottery management such as gas prices, unemployment, and lack of discretionary income, as well as factors that are controlled by lottery management such as payout management and the matrices used. His assumptions include a Powerball matrix change that will occur on January 4, 2009. Mr. Currey estimated lottery expenses for fiscal year 2008-09 at approximately 73% of total net revenues. The Net Lottery Proceeds available for deposit into the Lottery Education Account for fiscal years 2008-09 and 2009-10 are estimated to be 27% and 26.9%, respectively. The projections for fiscal years 2008-09 and 2009-10 do not include the continuation of the allotment of \$25,000,000 for Pre-K and Early Childhood Education Programs.

The Board then heard from Mr. David Wright, Assistant Director for Policy Planning and Research, of the Tennessee Higher Education Commission, and from Mr. Tim Phelps, Associate Executive Director for Grants and Scholarship Programs, of the Tennessee Student Assistance Corporation. In fiscal year 2007-08, there were 76,300 awards in the TEL Scholarship program, with an actual cost of \$225,800,000. Mr. Phelps estimated there will be 88,000 awards, with a projected cost of \$266,000,000 in fiscal year 2008-09. Furthermore, Mr. Wright presented estimates for fiscal year 2009-10 of 91,000 awards, with a projected cost of \$274,000,000. These awards include all lottery-funded scholarship programs as authorized through the 2008 session of the General Assembly, including Hope Scholarship, General Assembly Merit Scholarship, ASPIRE Award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Foster Child Tuition Grant, Dual Enrollment Grant, Math & Science Teacher Loan Forgiveness Program, Helping Heroes Grant, and the Rural Health Loan Forgiveness Program.

The estimates provided by each of the presenters are summarized in an attachment to this memorandum. Consensus was reached on the following estimates of the range for Net Lottery Proceeds to be deposited in the Lottery for Education Account and used for the various statutory purposes:

	FY 2008-09		FY 2009-10	
	Low	High	Low	High
Net Lottery Proceeds	\$269,700,000	\$276,500,000	\$269,000,000	\$277,200,000

These estimates assume no new legislative changes regarding the TELC and its authority. The Board agreed with the presenters that Net Lottery Proceeds are difficult to project due to the various economic factors presented above. The Board noted that while estimates of Net Lottery Proceeds for fiscal year 2008-09 exceed the current year estimate of the scholarship program, the Net Lottery Proceeds for fiscal year 2009-10 may be less than the scholarship estimates for that fiscal year.

The estimates of the Net Lottery Proceeds will be revisited at the time the State Funding Board considers revisions to the ranges of State revenue estimates prior to the final adoption of the appropriations bill. As indicated previously, each of you will be advised of any revisions made by the Board at that time.

Attached is a copy of the letter received pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B) which states:

Before December 15, 2003, and before December 15 in each succeeding year, appropriate state agencies shall submit to the funding board and to the governor their recommendations for other educational programs and purposes consistent with article XI, § 5 of the Tennessee Constitution based on the difference between the funding board's projections and recommendations for the lottery scholarship program based on the report submitted pursuant to subdivision (c)(2)(A). In no event shall such recommendations exceed the projections of the funding board for a specific fiscal year.

Each of us stands ready to discuss this further at your convenience.

Attachments

Revenue Estimates (2)
Lottery Estimates
TSAC/THEC Report
Funding Request Letter

cc. The Honorable Ron Ramsey
The Honorable Jimmy Naifeh

DEPARTMENT OF REVENUE													
SOURCE OF REVENUE	2007-2008		% CHANGE OVER 07-08	DR. FOX	% CHANGE OVER 07-08	FISCAL REVIEW	% CHANGE OVER 07-08	REVENUE DEPT.	% CHANGE OVER 07-08	DR. DEPNCE	% CHANGE OVER 07-08	DR. WALLACE	% CHANGE OVER 07-08
	ACTUAL	ESTIMATE											
Sales and Use Tax	\$ 6,831,184,800	\$ 7,019,200,000	2.45%	\$ 6,645,600,000	-3.00%	\$ 6,611,353,000	-3.50%	\$ 6,607,200,000	-3.56%	\$ 6,747,200,000	-1.52%	\$ 6,826,000,000	-0.22%
Gasoline Tax	617,060,800	609,100,000	-1.29%	603,000,000	-2.28%	599,369,000	-4.67%	594,200,000	-3.71%	572,300,000	-7.26%	602,000,000	-0.22%
Motor Fuel Tax	182,938,900	188,300,000	2.93%	186,300,000	-6.00%	171,285,000	-6.37%	170,900,000	-6.55%	156,300,000	-13.47%	170,000,000	-2.04%
Gasoline Inspection Tax	65,161,400	66,200,000	1.59%	64,600,000	-0.66%	63,500,000	-2.55%	62,800,000	-3.93%	63,300,000	-2.86%	61,700,000	-5.31%
Motor Vehicle Registration Tax	251,209,200	263,000,000	4.65%	251,300,000	0.00%	245,000,000	-2.51%	252,900,000	0.63%	255,700,000	1.75%	260,000,000	4.67%
Income Tax	252,027,400	262,400,000	-10.15%	204,400,000	-30.01%	215,216,000	-40.00%	244,100,000	-16.41%	261,800,000	-10.35%	277,500,000	4.97%
Privilege Tax - Less Farmanned Portion	273,173,800	263,800,000	9.89%	226,000,000	-19.00%	265,000,000	-5.02%	269,800,000	-3.30%	277,700,000	-1.07%	288,300,000	3.69%
Gross Receipts Tax - TVA	273,173,800	263,800,000	3.89%	264,000,000	-3.96%	283,100,000	3.53%	283,100,000	3.53%	283,800,000	3.86%	270,000,000	-1.16%
Gross Receipts Tax - Other	27,500,000	27,500,000	37.00%	27,500,000	4.62%	25,200,000	25.54%	24,900,000	24.03%	18,100,000	-8.32%	27,500,000	37.00%
Beer Tax	15,675,800	19,100,000	21.84%	18,300,000	16.74%	18,300,000	16.74%	18,300,000	24.03%	18,300,000	-8.32%	18,300,000	16.74%
Alcoholic Beverage Tax	42,602,300	44,300,000	3.98%	43,500,000	3.05%	42,300,000	3.75%	42,700,000	0.23%	42,400,000	-0.47%	44,000,000	3.28%
Franchise & Excise Taxes	1,619,908,100	1,684,100,000	2.75%	1,368,000,000	-18.00%	1,229,337,000	-24.09%	1,507,000,000	-6.99%	1,344,300,000	-16.99%	1,580,000,000	-1.82%
Inheritance and Estate Tax	112,756,700	95,000,000	-16.78%	95,000,000	-15.78%	104,000,000	7.80%	99,300,000	-4.69%	90,800,000	-19.50%	100,000,000	-11.34%
Tobacco Tax	296,026,500	325,000,000	9.82%	310,000,000	5.38%	315,000,000	10.13%	338,500,000	15.34%	310,800,000	8.65%	290,000,000	-3.99%
Motor Vehicle Title Fees	11,392,000	11,600,000	1.83%	11,000,000	-3.44%	10,636,000	-7.50%	11,600,000	0.72%	11,100,000	-2.56%	11,300,000	-0.01%
Mixed Drink Tax	54,903,200	61,400,000	11.83%	55,000,000	0.18%	56,000,000	2.00%	55,300,000	-0.72%	58,700,000	6.92%	56,000,000	-2.00%
Business Tax	138,156,800	145,800,000	5.53%	131,200,000	-5.04%	128,466,000	-7.00%	130,700,000	-5.40%	138,400,000	0.90%	140,000,000	1.13%
Severance Tax	2,616,700	1,800,000	-32.21%	2,000,000	-22.97%	2,700,000	3.18%	2,800,000	7.01%	1,700,000	-26.03%	3,000,000	14.85%
Com Operated Amusement Tax	252,100	300,000	19.00%	300,000	12.54%	300,000	19.00%	300,000	19.00%	300,000	19.00%	250,000	-8.33%
Unauthorized Substance Tax	1,868,300	2,000,000	18.00%	1,900,000	-5.37%	1,700,000	-6.69%	1,900,000	40.77%	1,900,000	-2.54%	2,000,000	5.26%
TOTAL DEPARTMENT OF REVENUE	\$ 11,117,883,200	\$ 11,386,300,000	2.45%	\$ 10,664,900,000	-8.87%	\$ 10,349,124,000	-6.91%	\$ 10,716,900,000	-3.60%	\$ 10,657,900,000	-1.79%	\$ 11,048,250,000	18.46%
GENERAL FUND ONLY (2)	\$ 9,221,966,700	\$ 9,507,100,000	3.08%	\$ 8,632,300,000	-6.39%	\$ 8,534,124,000	-7.46%	\$ 8,878,900,000	-3.72%	\$ 8,837,900,000	-4.16%	\$ 9,183,350,000	0.42%
Budgeted Est. Compared to New Est. - Total													
Budgeted Est. Compared to New Est. - Gen. Fund													
	\$ (931,700,000)	\$ (931,700,000)		\$ (931,700,000)		\$ (931,700,000)		\$ (931,700,000)		\$ (931,700,000)		\$ (931,700,000)	
	\$ (972,976,000)	\$ (972,976,000)		\$ (972,976,000)		\$ (972,976,000)		\$ (972,976,000)		\$ (972,976,000)		\$ (972,976,000)	
	\$ (628,200,000)	\$ (628,200,000)		\$ (628,200,000)		\$ (628,200,000)		\$ (628,200,000)		\$ (628,200,000)		\$ (628,200,000)	
	\$ (669,200,000)	\$ (669,200,000)		\$ (669,200,000)		\$ (669,200,000)		\$ (669,200,000)		\$ (669,200,000)		\$ (669,200,000)	
	\$ (347,250,000)	\$ (347,250,000)		\$ (347,250,000)		\$ (347,250,000)		\$ (347,250,000)		\$ (347,250,000)		\$ (347,250,000)	
	\$ (232,750,000)	\$ (232,750,000)		\$ (232,750,000)		\$ (232,750,000)		\$ (232,750,000)		\$ (232,750,000)		\$ (232,750,000)	
	\$ (434,050,000)	\$ (434,050,000)		\$ (434,050,000)		\$ (434,050,000)		\$ (434,050,000)		\$ (434,050,000)		\$ (434,050,000)	

(1) Privilege tax estimates are reduced by \$10.7 million for the estimated portion of the tax.
(2) F&A calculated the General Fund distribution for all presenters.
* F&A distributed taxes for Dr. DePina based on reports for 2008-2009 budgeted collections.
** F&A distributed the Gross Receipts Taxes for Dr. DePina based on 2008-2009 budgeted Gross Receipts Tax - TVA collections.
*** An estimate for this tax was not provided by Dr. Wallace. F&A used estimates for 2008-2009 budgeted collections.

COMPARISON OF ESTIMATED STATE TAX REVENUE FOR
FISCAL YEAR 2009-2010
(Actual - Basis Estimate)

Schedule 2

2009-2010

DEPARTMENT OF REVENUE		% CHANGE OVER 08-09		% CHANGE OVER 08-09		% CHANGE OVER 08-09		% CHANGE OVER 08-09		% CHANGE OVER 08-09		% CHANGE OVER 08-09		% CHANGE OVER 08-09		% CHANGE OVER 08-09		% CHANGE OVER 08-09	
SOURCE OF REVENUE		DR. FOX	ESTIMATE	FISCAL REVIEW	ESTIMATE	REVENUE DEPT.	ESTIMATE	DR. DEPRINCE	ESTIMATE	DR. WALLACE	ESTIMATE	DR. WALLACE	ESTIMATE	DR. WALLACE	ESTIMATE	DR. WALLACE	ESTIMATE	DR. WALLACE	ESTIMATE
Sales and Use Tax		\$ 6,712,100,000	1.00%	\$ 6,809,735,000	1.00%	\$ 6,701,900,000	1.43%	\$ 6,828,100,000	1.21%	\$ 6,920,000,000	0.94%	\$ 6,884,800,000	0.94%	\$ 6,900,000,000	0.94%	\$ 6,884,800,000	0.94%	\$ 6,900,000,000	0.94%
Gasoline Tax		606,000,000	0.50%	605,363,000	1.00%	603,800,000	1.58%	620,800,000	1.48%	625,000,000	3.82%	616,800,000	3.82%	625,000,000	3.82%	616,800,000	3.82%	625,000,000	3.82%
Motor Fuel Tax		170,000,000	1.01%	175,567,000	2.50%	161,800,000	5.79%	161,400,000	1.96%	174,300,000	2.53%	171,000,000	2.53%	174,300,000	2.53%	171,000,000	2.53%	174,300,000	2.53%
Gasoline Inspection Tax		65,600,000	1.55%	64,770,000	2.00%	64,400,000	2.88%	63,600,000	0.47%	62,200,000	0.81%	61,200,000	0.81%	62,200,000	0.81%	61,200,000	0.81%	62,200,000	0.81%
Motor Vehicle Registration Tax		253,800,000	0.99%	246,675,000	1.50%	257,600,000	2.88%	267,000,000	0.38%	267,000,000	4.66%	263,200,000	4.66%	267,000,000	4.66%	263,200,000	4.66%	267,000,000	4.66%
Income Tax		163,500,000	-20.01%	175,416,000	1.00%	252,700,000	3.52%	262,500,000	0.42%	290,000,000	2.50%	284,700,000	2.50%	290,000,000	2.50%	284,700,000	2.50%	290,000,000	2.50%
Privilege Tax - Less Farmmarked Portion		230,500,000	1.98%	266,638,000	1.75%	299,800,000	11.12%	288,800,000	3.71%	309,300,000	6.91%	301,800,000	7.17%	309,300,000	6.91%	301,800,000	7.17%	309,300,000	6.91%
Gross Receipts Tax - TVA		295,400,000	4.01%	26,082,000	4.50%	285,900,000	0.98%	283,800,000	0.00%	270,000,000	0.00%	264,600,000	0.00%	270,000,000	0.00%	264,600,000	0.00%	270,000,000	0.00%
Gross Receipts Tax - Other		21,000,000	0.00%	26,082,000	2.19%	19,600,000	4.42%	26,000,000	0.55%	27,500,000	0.00%	27,500,000	0.00%	27,500,000	0.00%	27,500,000	0.00%	27,500,000	0.00%
Beer Tax		18,700,000	2.19%	18,849,000	3.00%	19,600,000	8.88%	18,400,000	0.55%	19,100,000	2.14%	18,900,000	2.14%	19,100,000	2.14%	18,900,000	2.14%	19,100,000	2.14%
Alcoholic Beverage Tax		45,600,000	3.87%	45,526,000	3.00%	46,500,000	6.56%	42,600,000	0.47%	45,000,000	2.21%	44,800,000	2.21%	45,000,000	2.21%	44,800,000	2.21%	45,000,000	2.21%
Franchise & Excise Taxes		1,301,400,000	-2.00%	1,266,217,000	0.00%	1,548,400,000	-1.22%	1,337,900,000	-1.22%	1,623,100,000	2.05%	1,571,100,000	2.05%	1,623,100,000	2.05%	1,571,100,000	2.05%	1,623,100,000	2.05%
Inheritance and Estate Tax		38,000,000	0.00%	107,120,000	3.00%	98,300,000	-1.01%	91,300,000	0.55%	101,000,000	1.00%	94,800,000	0.96%	101,000,000	1.00%	94,800,000	0.96%	101,000,000	1.00%
Tobacco Tax		316,200,000	2.00%	315,150,000	1.00%	345,000,000	1.92%	312,500,000	0.55%	292,500,000	0.97%	290,800,000	0.97%	292,500,000	0.97%	290,800,000	0.97%	292,500,000	0.97%
Motor Vehicle Title Fees		11,300,000	2.73%	10,749,000	1.00%	12,300,000	6.03%	11,200,000	0.90%	11,500,000	1.77%	11,300,000	1.77%	11,500,000	1.77%	11,300,000	1.77%	11,500,000	1.77%
Mixed Drink Tax		58,900,000	7.06%	57,690,000	3.00%	54,500,000	-1.45%	59,000,000	0.51%	58,900,000	5.18%	58,400,000	5.23%	58,900,000	5.18%	58,400,000	5.23%	58,900,000	5.18%
Business Tax		131,200,000	0.00%	131,056,000	2.00%	132,400,000	-1.30%	140,200,000	0.57%	142,300,000	1.64%	140,600,000	1.64%	142,300,000	1.64%	140,600,000	1.64%	142,300,000	1.64%
Severance Tax		2,000,000	0.00%	2,800,000	3.70%	2,300,000	-17.86%	1,700,000	0.00%	3,000,000	0.00%	2,800,000	0.00%	3,000,000	0.00%	2,800,000	0.00%	3,000,000	0.00%
Coin Operated Amusement Tax		300,000	0.00%	300,000	0.00%	300,000	0.00%	300,000	0.00%	300,000	0.00%	300,000	0.00%	300,000	0.00%	300,000	0.00%	300,000	0.00%
Unamortized Substance Tax		1,900,000	0.34%	1,800,000	5.88%	1,000,000	0.00%	1,900,000	0.00%	2,000,000	0.00%	2,000,000	0.00%	2,000,000	0.00%	2,000,000	0.00%	2,000,000	0.00%
TOTAL DEPARTMENT OF REVENUE		\$10,500,400,000	0.34%	\$10,631,133,000	2.72%	\$10,932,300,000	2.01%	\$10,759,300,000	0.95%	\$11,224,300,000	1.58%	\$11,091,600,000	1.58%	\$11,224,300,000	1.58%	\$11,091,600,000	1.58%	\$11,224,300,000	1.58%
GENERAL FUND ONLY (2)		\$ 8,664,700,000	0.38%	\$ 8,787,033,000	2.96%	\$ 9,062,600,000	2.07%	\$ 8,923,200,000	0.97%	\$ 9,317,900,000	1.47%	\$ 9,205,200,000	1.47%	\$ 9,317,900,000	1.47%	\$ 9,205,200,000	1.47%	\$ 9,317,900,000	1.47%
Growth over FY 09 Budgeted Est. - Total		\$ (896,100,000)		\$ (765,367,000)		\$ (464,200,000)		\$ (637,200,000)		\$ (172,200,000)		\$ (304,900,000)		\$ (172,200,000)		\$ (304,900,000)		\$ (172,200,000)	
Growth over FY 09 Budgeted Est. - Gen Fund		\$ (842,400,000)		\$ (720,067,000)		\$ (444,500,000)		\$ (563,900,000)		\$ (169,200,000)		\$ (301,900,000)		\$ (169,200,000)		\$ (301,900,000)		\$ (169,200,000)	
Revised Est. Compared to New Est. - Total		\$ 35,600,000		\$ 281,509,000		\$ 215,400,000		\$ 101,400,000		\$ 175,050,000		\$ 173,050,000		\$ 175,050,000		\$ 173,050,000		\$ 175,050,000	
Revised Est. Compared to New Est. - Gen. Fund		\$ 32,400,000		\$ 232,909,000		\$ 183,700,000		\$ 65,300,000		\$ 134,550,000		\$ 132,150,000		\$ 134,550,000		\$ 132,150,000		\$ 134,550,000	
SELECTED TAXES		DR. FOX	%	FISCAL REVIEW	%	REVENUE DEPT.	%	DR. DEPRINCE	%	DR. WALLACE	%	DR. WALLACE	%	DR. WALLACE	%	DR. WALLACE	%	DR. WALLACE	%
SALES AND USE TAX		\$ 6,712,100,000	1.00%	\$ 6,809,735,000	3.00%	\$ 6,701,900,000	1.43%	\$ 6,828,100,000	1.21%	\$ 6,920,000,000	0.94%	\$ 6,884,800,000	0.94%	\$ 6,900,000,000	0.94%	\$ 6,884,800,000	0.94%	\$ 6,900,000,000	0.94%
FRANCHISE AND EXCISE TAXES		1,301,400,000	-2.00%	1,266,217,000	3.00%	1,548,400,000	2.75%	1,327,900,000	-1.22%	1,623,100,000	2.08%	1,571,100,000	2.08%	1,623,100,000	2.08%	1,571,100,000	2.08%	1,623,100,000	2.08%
INCOME TAX		163,500,000	-20.01%	175,216,000	0.00%	252,700,000	3.52%	262,900,000	0.42%	290,000,000	2.45%	284,700,000	2.45%	290,000,000	2.45%	284,700,000	2.45%	290,000,000	2.45%
LOAD USER TAXES		1,095,400,000	0.75%	1,094,375,000	1.41%	1,106,400,000	2.39%	1,062,500,000	1.23%	1,128,500,000	3.18%	1,112,800,000	3.18%	1,128,500,000	3.18%	1,112,800,000	3.18%	1,128,500,000	3.18%
ALL OTHER TAXES		1,228,000,000	2.37%	1,265,590,000	2.48%	1,332,900,000	3.51%	1,276,900,000	1.73%	1,282,700,000	2.45%	1,296,000,000	2.50%	1,282,700,000	2.45%	1,296,000,000	2.50%	1,282,700,000	2.45%

(1) Privilege Tax estimates are reduced by \$10.7 million for the earmarked portion of the tax.
(2) F&A calculated the General Fund distribution for all presenters.
* F&A distributed taxes for Dr. DePrince based on ratios for 2008-2009 budgeted collections.
** F&A distributed the Gross Receipts Taxes for Dr. DePrince based on 2008-2009 budgeted Gross Receipts Tax - TVA collections.
*** An estimate for this tax was not provided by Dr. Wallace. F&A used estimates for 2008-2009 budgeted collections.

State Funding Board
Net Lottery Proceeds Estimates
Actual 2007-2008 and Estimated 2008-2009 and 2009-2010
December 12, 2008

	2007-2008 Actual	2008-2009 Revised	%	2009-2010 Estimated	%
Lottery Corporation					
Low	272,416,000	274,900,000	0.91%	274,900,000	0.00%
High	272,416,000	277,900,000	2.01%	277,900,000	0.00%
Mid-Range Estimate	272,416,000	276,400,000	1.46%	276,400,000	0.00%
Point Estimate	272,416,000	276,058,000	1.34%	276,058,000	0.00%
Fiscal Review Staff					
Low	272,416,000	264,340,000	-2.96%	265,610,000	0.48%
Median	272,416,000	270,665,000	-0.64%	272,200,000	0.57%
High	272,416,000	276,980,000	1.68%	278,780,000	0.65%
Recommended Range					
Low	272,416,000	269,700,000	-1.00%	269,000,000	-0.25%
High	272,416,000	276,500,000	1.50%	277,200,000	0.25%



STATE OF TENNESSEE
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MEMORANDUM

TO: State Funding Board

FROM: David Wright *David L. Wright*
Tennessee Higher Education Commission

Tim Phelps *T. Phelps*
Tennessee Student Assistance Corporation

SUBJECT: Tennessee Education Lottery Scholarship Program Projections

DATE: December 3, 2008

The Tennessee Student Assistance Corporation (TSAC) and the Tennessee Higher Education Commission (THEC) have collaborated to provide the following information regarding lottery-related financial assistance. Pursuant to Tennessee Code 4-51-111(c)(2)(a), the purpose is to give an overview of actual awards from the previous academic year and the projected expenditures for the 2008-09 and 2009-10 academic years.

2007-08 Actual

Number of awards - 76,300
Total cost - \$225,800,000

2008-09 Estimated

Number of awards - 88,000
Total Cost - \$266,000,000

2009-10 Estimated

Number of awards - 91,000
Total Cost - \$274,000,000

The figures provided include changes made during the last legislative session of the Tennessee General Assembly. The changes made have an estimated fiscal impact of approximately \$28 million for an estimated 10,200 students. Some of the changes included lowering the cumulative GPA requirement at the 48 hour benchmark, incorporating a "provisional" method for continuing students to qualify for the award, expanding eligibility for nontraditional students, creation of two new programs and eliminating the 120 credit hour limitation.

The figures incorporate data for all lottery-funded programs, including the HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE Award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Foster Child Tuition Grant, Dual Enrollment Grant, Math & Science Teacher Loan Forgiveness Program, the Helping Heroes Grant, and the Rural Health Loan Forgiveness Program.

If you have any questions or require additional information, please contact either of the writers. Thank you.

cc: Riley Darnell, Secretary of State
John Morgan, Comptroller of the Treasury
Dale Sims, Treasurer
M. David Goetz, Commissioner, Finance & Administration



PHIL BREDESEN
GOVERNOR

STATE OF TENNESSEE
DEPARTMENT OF EDUCATION
6th FLOOR, ANDREW JOHNSON TOWER
710 JAMES ROBERTSON PARKWAY
NASHVILLE, TN 37243-0375

TIMOTHY K. WEBB.
COMMISSIONER

TO: State Funding Board
Attention: Mary-Margaret Collier

FROM: Timothy K. Webb

A handwritten signature in cursive script that reads "Timothy K. Webb".

DATE: December 2, 2008

SUBJECT: Request for \$25 Million from Net Lottery Proceed for Early Education for
FY 2009-2010

Pursuant to Tenn. Code Ann. 4-51-111(c)(2)(B) which states prior to December 15, "appropriate state agencies shall submit to the funding board and to the governor their recommendations for other education programs and purposes consistent with article XI, § 5 of the Tennessee Constitution," the Department of Education request the allotment of \$25 million from net lottery proceeds in FY 2009-2010 for Early Education Programs.

These funds will support improvements and enhancements for education programs and purposes and such net proceeds shall be used to supplement, not supplant, non-lottery educational resources for educational programs and purposes.

Your consideration and approval of this request is appreciated.

If you have any questions, please contact Robert Greene, Deputy Commissioner, at 615-741-5158.

cc: Bill Bradley